

Audit Division Statistical Study

The Audit Division Statistical Study addresses the requirements set forth by IC 6-8.1-14-4 (2). The information is based on 100 percent of the audits completed, taxpayers assisted and special projects conducted during fiscal year 2007.

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Taxpayers served in district offices

Taxpayer assistance is available in all district offices. Each office has a taxpayer assistance supervisor and taxpayer representative who perform taxpayer-service functions, as well as other office-support responsibilities. Each office has at least one field investigator who supports taxpayer assistance and performs collection functions in the district. Contract employees are available throughout the year to support taxpayer assistance.

The *Taxpayer Assistance Report - Fiscal Year 2007* (Exhibit A) provides the number of taxpayers assisted (in person and by telephone) and the amount of money collected and assessed in each office through the taxpayer-assistance program. Exhibit A reveals that during fiscal year 2007, district offices assisted 116,777 taxpayers in person and 149,692 taxpayers through telephone contact. Total taxpayers served through the district offices were 266,469. The district office in Merrillville served 15,255 taxpayers in person, the highest number of any district office. The Clarksville district office served 13,893 taxpayers in person, the second highest total.

The Merrillville district office served 19,037 taxpayers by telephone, while the Bloomington district office served 16,903 taxpayers by telephone. This was the highest number of telephone contacts among the district offices, totaling 24-percent of total taxpayer-telephone contacts. The Merrillville district office served a total of 34,292 taxpayers by telephone and walk-in assistance, while Bloomington served 29,563 taxpayers by telephone and walk-in assistance.

Field Auditors Taxpayer Assistance/Special Projects (Exhibit B) provides the number of hours field auditors devoted in the district offices to assist taxpayers and conduct special projects. The exhibit reveals that 3,706 auditor hours were channeled in this direction.

Gross income tax violations

In 2007, the most-violated-gross-income-tax rule is 45 IAC 1.1-2-4. Rule 2-4 defines taxable high-rate income of utilities, display advertising, sale of real estate, rentals and extension of credit. This rule accounted for 25 (or 25 percent) of the violations of gross-income-tax rules in the 2007 study. In 2006, Rule 2-4 accounted for

the most violations with 26 (or 17 percent). In 2005, Rule 2-4 accounted for the most violations with 21 (or 14 percent).

Ranking second in gross income tax violations for 2007 were 45 IAC 1.1-2-2 and 45 IAC 1.1-2-5 equally. Rule 2-2 defines taxable low-rate-gross income of retail and wholesale sales, display advertising, dry cleaning and laundry service, rental of water softening equipment, rental of rooms, lodging, booths and similar accommodations and commercial printing. Rule 2-5 defines gross income derived from providing services within Indiana. 20 violations each of Rules 2.2 and 2.5 accounted for 40 percent of all violations of the gross-income-tax rules in the 2007 statistics. In 2006, Rule 2-5 accounted for the second most violations with 19 (or 12 percent). In 2005, Rule 2-2 ranked second accounting for 18 (or 12 percent) violations.

Sales/use tax violations

The most-violated-sales and use-tax rule was 45 IAC 2.2-3-20. Rule 3-20 states that if the seller of tangible-personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department. This rule produced 860 (or 19 percent) of the sales and use-tax violations in 2007. In 2006, Rule 3-20 accounted for the most violations with 777 (or 18 percent). In 2005, Rule 3-20 accounted for the most violations with 550 (or 17 percent).

The second-most-violated-sales and use-tax rule in 2007 was 45 IAC 2.2-3-4. Rule 3-4 imposes use tax on tangible-personal property, purchased in Indiana, or elsewhere in a retail transaction, and stored, used or otherwise consumed in Indiana unless the Indiana-state-gross-retail tax (sales tax) has been collected at the point of purchase. This rule accounted for 548 (or 12 percent) of sales and use-tax violations. In 2006, Rule 3-4 accounted for the second-most violations with 557 (or 13 percent). In 2005, 45 IAC 2.2-3-4 accounted for the second-most violations with 383 (or 12 percent).

The third-most-violated rule for the 2007 fiscal year was 45 IAC 2.2-5-8. Rule 5-8 clarifies sales and use tax by providing examples of taxable and nontaxable sales of manufacturing machinery, tools and equipment used in direct production and other activities. Failure of taxpayers to comply with this rule accounted for 410 (or 9 percent) of the sales and use-tax violations. In 2006, Rule 5-8 accounted for the third-most violations with 368 (or 9 percent). In 2005, Rule 5-8 also accounted for the third-most violations with 308 (or 9 percent).

Corporate adjusted gross income tax violations

Rule 45 IAC 3.1-1-1 was violated more than any other adjusted-gross-income-tax rule in 2007. Violations of this rule accounted for 168 (or 29 percent) of the total violations in the 2007 study. This rule defines adjusted-gross income for individuals as defined in Section 62 of the Internal Revenue Code. In 2006, Rule 45 IAC 3.1-1-2 accounted for the most violations. This rule defines gross income for Indiana residents filing individual returns as all income defined by Section 61 of the Internal Revenue Code. In 2006, this rule accounted for 82 (or 17 percent) of the violations. In 2005, Rule 1-2 accounted for the most violations with 64 (or 15 percent).

The second-most-violated-adjusted-gross-income rule for 2007 was 45 IAC 3.1-1-2 as defined above. Violations of this rule accounted for 65 or 11 percent of violations. Rules 45 IAC 3.1-1-1 and 45 IAC 3.1-1-97 were equally ranked for second with 68 or 15 percent of the violations in the 2006 study. Rule 1-97 defines withholding agents and their responsibility for remitting tax withheld to Indiana. Rule 1-1 ranked second in the 2005 study accounting for 58 (or 14 percent) of total violations.

The third-most-violated-adjusted-gross-income-tax rule in 2007 was 45 IAC 3.1-1-97. Rule 1-97, defined above, ranked third with 64 (or 11 percent) of the violations in the 2007 study. In 2006, the third most

violated adjusted-gross-income-tax rule was 45 IAC 3.1-1-8 as defined above. Violations of this rule accounted for 75 (or 16 percent) of the violations. In 2005, Rule 1-8 accounted for the third most violations with 54 (or 13 percent).

Amounts of tax assessed

Exhibits C, D and E display the amount of assessments (refunds) of the gross-income tax, sales tax and adjusted-gross-income tax administrative rules, respectively. Total assessments for any tax type represent gross assessments less amounts refunded.

The amount assessed or refunded for each of the most-frequent violations and the percentage of the amount to total net assessments are presented as follows:

Gross Income Tax—see Exhibit C:

	Amount Assessed	Percentage of All Assessments
45 IAC 1.1-2-4	\$2,563,747	15.38%
45 IAC 1.1-2-2	\$1,510,899	09.07%
45 IAC 1.1-2-5	(\$1,664,899)	9.99%

Sales/Use Tax—see Exhibit D:

	Amount Assessed	Percentage of All Assessments
45 IAC 2.2-3-20	(\$493,929)	.99%
45 IAC 2.2-3-4	\$6,630,984	13.32%
45 IAC 2.2-5-8	\$5,286,034	10.62%

Adjusted Gross Income Tax—see Exhibit E:

	Amount Assessed	Percentage of All Assessments
45 IAC 3.1-1-1	\$1,387,073	2.03%
45 IAC 3.1-1-2	\$365,939	.54%
45 IAC 3.1-1-97	\$303,329	.44%

Industry /Business Taxes Most Frequently In Violation

Gross income tax

Taxpayers engaged in information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services group most-frequently violated the gross-income-tax rules for 2007. This group committed 26 violations (or 26 percent) of the total violations. The gross-income-tax rule most-frequently violated by this group of taxpayers is 45 IAC 1.1-2-5, with 9 violations. Rule 2-5 defines services.

The second-largest number of gross-income-tax violations was committed by taxpayers engaged in manufacturing. This group committed 20 violations (or 20 percent) of the total violations for 2007. The most-frequently-violated rules of this group were 45 IAC 1.1-2-2 and 45 IAC 1.1-2-5 (5 violations each). Rule 2-2 defines low-rate income and Rule 2-5 defines service income.

Sales and use tax

For the 2007 reporting period, wholesale, retail and transportation businesses accounted for the most violations. They accounted for 1,175 violations (or 26 percent) of the total sales and use-tax violations. The most-violated rule by these taxpayers was 45 IAC 2.2-3-20 that states if a seller of tangible personal property for storage, use or consumption in Indiana fails to collect the appropriate tax, the purchaser of such property must remit tax directly to the Department.

Manufacturing had the second-most frequency of violations for the 2007 sales and use tax rules. It accounted for 803 of the violations committed, which represented 17 percent of all sales and use tax violations. The rule most frequently violated by this group was 45 IAC 2.2-5-8, which defines the application of sale and use tax to sales of machinery, tools and equipment used in manufacturing.

Adjusted gross income tax

Public transportation with 226 violations was the most-frequent violator of adjusted-gross-income-tax rules. This figure represents 39 percent of the total adjusted-gross-income-tax violations. Adjusted-gross income for individuals, defined by 45 IAC 3.1-1-1, accounted for the most violations in this class.

Manufacturing had the second most frequency of violations for the 2007 adjusted-gross-income-tax rules. It accounted for 79 of the violations committed, which represented 13 percent of all adjusted-gross-income-tax violations. The rule most frequently violated by this group was 45 IAC 3.1-1-97, which defines withholding agents and their responsibility for remitting tax withheld to Indiana.

Special tax violations

Exhibit G provides the special tax assessments and refunds by citation.

Article VIII (citation R800 on Exhibit G) of the International Fuel Tax Agreement (IFTA) was the most frequently violated special tax item in the study. It specifies the taxable event is the consumption of motor fuels in the propulsion of qualified-motor vehicles, except fuel consumed that is exempt from taxation by a jurisdiction. All motor fuel acquired that is normally subject to consumption tax is taxable unless the licensee provides proof to the contrary. Article VIII was violated 264 times and yielded \$422,963 in net assessments for the state of Indiana. This represents 27 percent of total violations and 24 percent of net assessments. Article VIII was the most-violated special-tax citation in the 2006 and 2005 studies. The 2006 study had 296 violations (\$850,736 net assessments) and 2005 had 235 violations (\$327,854 net assessments).

Article X (citation R1000 on Exhibit G) of the IFTA was the second-most-violated section of the special-tax statutes. This Article discusses how taxpayers can obtain credit for tax previously paid on purchases of fuel at the pump. It also lists the records needed to substantiate the refund request. This article was violated 280 times accounting for 25.16 percent of the total violations. These violations resulted in net refunds of \$306,823. Article X had the second-most-violations in the 2006 and 2005 special-tax citations. The 2006 study showed 280 violations with \$306,823 net refunds, while 2005 showed 221 violations with \$162,948 net assessments.

The taxpayer group most frequently in violation of the special-tax statutes and IFTA Articles for 2007 was the wholesale, retail and transportation industries. This group committed 791 violations, accounting for 79 percent of the total violations. Article VIII of the IFTA was most frequently violated by the wholesale, retail and transportation industries. The 2006 statistics showed the wholesale, retail and transportation industries with the most violations, 810 total. The 2005 statistics showed the repair, personal and other services industries with the most violations, 432 total.

Miscellaneous code violations

Exhibit F provides the assessment amounts for the following:

- Financial Institutions Tax
- Tax Administration
- Food and Beverage Tax
- Innkeeper's Tax
- Charity Gaming

A review of the miscellaneous-code-violations data reveals that IC 6-6-9 was violated 75, (39 percent) times in the 2007 study. These violations yielded \$466,266 in net assessments. IC 6-6-9 discusses the auto rental excise tax. In the 2006 study, 45 IAC 15-5-1, which discusses issuing notices of assessment, produced 18 violations or 14 percent, of all miscellaneous-code violations. In the 2005 study, 45 IAC 15-9-2, which discusses statute of limitations for refunds, produced 12 (or 14.63 percent) of the violations.

Two miscellaneous code sections were the second-most-violated sections in 2007. These were IC 6-2.3-1-6 and IC 6-2.3-2-1 both which cover utility receipts tax. These two code sections yielded 18 code violations (or 9 percent) resulting in \$332,180 in net assessments. 45 IAC 15-4-1 was the second-most-violated rule in

Quality That Counts Spotlight

Heather Murrell

Field Investigator Heather Murrell took the initiative in 2006 to assume the additional job duties of two colleagues who were on medical leave. Murrell balanced her added responsibilities with her traditional work load and helped to provide a smooth-running environment. Her efforts also allowed taxpayers to continue to receive efficient service in light of the situation.



Right people in the right jobs

Customer Focus

Efficiency

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this category in 2006. It yielded a total of \$195,690 in assessments. Rule 4-1 discusses access to records for examination. Eleven rule violations accounted for 8.59 percent of the total violations in this category. Rule 4-1 was the second-most-violated-miscellaneous rule in the 2005 study accounting for \$47,384 in net refunds. The wholesale, retail and transportation industries committed the most-miscellaneous-code violations in 2007 with 88 (or 45 percent). The information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services industries committed the second-most-miscellaneous-code violations in 2007 with 49 (or 25 percent).

The arts, entertainment, recreation, food service and accommodation industries committed the most violations under the miscellaneous citations in 2006 with 28 (or 22 percent). The industry ranked second for the 2006 study was the information, publishing, telecommunications, finance, rental, insurance, real estate, leasing and professional services industries with 26 (or 20 percent) of the violations.

Number of years in the audit period

The audit period averages three years.

Use of Professional Tax Preparation Assistance

The services of professional preparers were used in the preparation of approximately 76 percent of the corporate income tax returns and approximately 12 percent of the sales tax returns. Statistics show that approximately 27 percent of individuals use a professional preparer to complete the returns.

Filing of Appropriate Tax Returns

Rule 45 IAC 3.1-1-92 (Exhibit E) requires qualifying corporations to make estimated tax payments. Taxpayers in violation of this rule either failed to file estimated income tax returns or failed to remit the appropriate amount of tax. For the fiscal years ending in 2004, 2005 and 2006, no activity was recorded. For 2007, assessments and collections resulted in \$669,788 in base taxes. The 2003 study indicated eight violations of this rule, resulting in assessments in the amount of \$12,863 and refunds totaling \$110,617.

Indiana Code 6-8.1-10-2.1 (Exhibit F) revealed no violations during the 2006 study period. Violations in FY 2007 totaled 341, with total penalties of \$60,893. This section specifies the penalty to be imposed if a taxpayer fails to file an appropriate return or pay the full amount of tax due. Violations of this section in the 2005 and 2004 studies were zero.